

INTRODUCTORY SECTION

May 7, 2007

**Honorable Mayor, Common Council members
and Citizens of Franklin:**

Introduction

The Comprehensive Annual Financial Report of the City of Franklin, Wisconsin for the fiscal year ended December 31, 2006, is hereby submitted. State law requires that all general purpose local governments with a population over 25,000 publish within six months of the end of the fiscal year a complete set of financial statements presented in conformity with general accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Franklin (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Virchow, Krause & Company, LLP, a firm of licensed public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

City Profile

The City of Franklin, incorporated in 1956, is located in the southwestern corner of Milwaukee County. The City is 34.5 square miles in size and has a population of 33,000. Over the last ten years the City has experienced an average annual population increase of 2.8% per year. The city is a residential community with a growing commercial and industrial base. It is generally considered to be one of the more desirable communities in the Milwaukee metropolitan area in which to live and work. The City provides a typical range of municipal services for a suburban community including police and fire protection; emergency medical/paramedic, health and sanitary services; building inspection and zoning control; street, sanitary, storm sewer and water construction and maintenance. The City is authorized to levy property tax on real and personal property located within its boundaries.

The City operates under the mayor/council form of government. Policy making and legislative authority are vested in a governing council consisting of the mayor and six other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring a city attorney. The City's mayor is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government and for appointing the heads of the various departments. The council is elected, by district, on a non-partisan basis. The Mayor and Council members serve staggered three-year terms. The City is organized into departments, headed by fourteen officials appointed by the Mayor or Director of Administration and confirmed by the Common Council. Numerous boards, commissions and committees allow for citizen involvement in government by providing a forum for policy input to the Council and guidance to the departments.

The City provides a full range of services, including police, fire protection and emergency medical services; street construction, maintenance of highways, streets and other infrastructure; recreational and cultural activities and sanitation services. Library service is provided through a separate Library Board that functions like a department of the City and engages the Library Director. Water service is provided through a separate Water Utility that functions like a department of the City. These two areas therefore have been included as an integral part of the City's financial statements. The City also is financially accountable for a legally separate Community Development Authority (Authority). The Authority was established to finance and construct a City Business Park located within the City of Franklin Tax Incremental Financing District No. II. The Authority's activities are reported within the City's financial statements. Additional information on the Authority can be found in Note 1 in the notes to the financial statements.

The budgetary process serves as the foundation of the City's financial planning and control system. The preparation of a forecast for the existing programs for the following year is prepared by the end of May. Departmental requests for personnel changes and new capital outlay expenditures are made by the end of June. The Mayor then reviews the forecast including recommended personnel and capital outlay expenditures and determines by mid July the personnel and capital outlay expenditures that will be included in the initial departmental requested budgets. The departments take this information and submit their requested budgets by mid August. The budgets are reviewed and the Mayor submits his recommended budget by mid September. The Council through its Finance Committee reviews the recommended budget and submits a proposed budget to the Council by mid October. The Council is required to hold a public hearing on the proposed budget, usually at the beginning of November, and then adopts a final budget in early November. The adopted budget is prepared by fund, function (e.g. Public Safety), and department (e.g.

Police). Transfers of appropriations between funds, functions or department require the approval of the governing council. Budget-to-actual comparisons are provided in this report for each fund with an adopted budget. The General Fund comparison is presented in Exhibit F as part of the basic financial statements for the government funds and in Schedules 3 & 4 of the supplementary information. For governmental funds, other than the General Fund, with adopted budgets this comparison is presented in the supplementary information section of this report.

The information presented in the financial statements is perhaps best understood when considered from the broader perspective of the environment within that the City operates.

Economic Condition and Outlook

The pace of growth in Franklin in 2006 continued to be good. Although the growth rate of residential sector declined, the non-residential sectors growth rate increased. The 308 units of new residential construction was below the 402 units average of the last ten years. The number of permits and value of non-residential permits was the largest in Franklin history. Future prospects for residential, commercial and industrial development continues to remaining positive.

Estimated actual property values have grown at an average annual rate of 10.9% since 1996. The \$107 million in new growth was the third year in a row that growth in the City was in excess of \$100 million. That growth has allowed the City to maintain a relatively low municipal tax rate while still funding the increased cost of services required as a result of the City's growth. The City also benefits from the economy in the Milwaukee metropolitan area.

Difficulty in budgeting at the State level resulted in less than inflationary increases local governments. The City was able to adjust its budget to compensate and was able to decrease the tax rate by 1.63%. Overall tax rates ranged from -3.75% to 4.98% depending upon the school or sewer district of a property.

For the next two years the state budget has recommended continuing levy limits upon local governments. The City of Franklin has been able to meet those limits for 2007 without layoffs to existing staff and hope that layoffs will not be necessary in 2008 and 2009 the next two years of the levy limits.

Residential Growth

Over the past ten years, residential valuation has grown at an average annual rate of 10.4%. In 2006 permits for 308 new equivalent residential units were issued. The decrease from the prior year reflects a slowing in residential construction. Continued growth from new construction is expected as new subdivisions open. Overall, the City remains attractive to builders and potential residents.

Commercial and Industrial Growth

Over the past ten years, commercial and industrial valuation has remained at an average annual rate of 13.3%. In 2006, 91 building permits were issued for commercial and industrial projects. The value of those projects increased by 137.1% from the 2005 activity level due to increased activity in this sector.

The City's Business Park has only 24 acres (7%) unsold with another 54 acres (16%) sold but not yet developed. The total incremental value of the Business Park, which comprises the City's TIF District No. 2, exceeded \$132 million equalized value at January 1, 2006. This value and the projected increases should generate sufficient tax increment to repay the existing TIF District debt by 2011 the last scheduled principal repayment date. Based on preliminary projections, when the TIF District No. 2 is closed out (currently expected to be in 2011), over \$150 million of additional value is expected to be added to the general tax rolls.

In 2005 the City established two new TIF Districts (#3 & #4) on the eastern side of the City. The two districts have experienced a good start with first year increments of \$12.9 and \$.9 Million, respectively.

Anticipated residential growth will continue to place demands on the commercial sector for goods and services that, in turn, is expected to continue the trend of commercial growth. Expansion of the commercial and industrial tax base is a goal of the City with respect to the overall tax rate, as 76% of the City's property value is currently residential. Future tax relief will need to come from industrial and commercial tax base expansion.

Organizational and Service Growth

The year 2006 was a year of growth for the City. The growth in the TIF Districts, the growth in other new development, growth in City infrastructure and the growth in service opportunities.

With the growth of the community, planning and zoning issues continued to receive much attention. To be sure that new development pays its fair share of the infrastructure costs the impact fees are charged for new development. The expansion and development of parks also continue to receive attention. The Parks Commission continues to implement the Comprehensive Outdoor Recreation Plan. The Health Department increased its outreach to the local schools and continued offering immunizations at businesses in the Business and Industrial Parks, including Hepatitis B vaccines.

2006 was a City-wide property re-assessment year. The last re-assessment was done in 2003. Performing revaluations on a regular basis is in line with the Common Council's past policy decision to increase the frequency of assessment re-determinations in order to keep property values more in line with current market values. The State determined that the local assessments were 99.4% of fair value. The estimated actual value of City properties has exceeded \$3.4 billion.

The challenge for the operating departments in 2006 was to maintain the service levels at a time of limited revenues to the City and a growth of 4.2% in new properties. Limited tax growth did not provide resources to expand services. However, no employment cutbacks were necessary.

Grant Controls

As a recipient of federal and state financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with laws and regulations applicable to those programs. This internal control structure is subject to periodic evaluation by management. The results of the City's audit for the fiscal year ended December 31, 2006 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws or regulations. If the level of

grant expenditures exceeds an established level, currently \$500,000, a single audit of grants is required. The City was not required to have a single audit of grants for 2006.

Budgeting Controls

The City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Common Council. Activities of the General Fund, Library Fund, Sanitary Sewer Fund, Debt Service Fund, Capital Outlay Fund, Capital Improvement Fund, Equipment Replacement Fund and Street Improvement Fund are included in the annual appropriated budget. The legal level for budgetary control is at the function level (e.g. public safety) within individual funds. The legal level of control is defined as the level at which expenditures cannot legally exceed the appropriated amount without a resolution approved by Common Council. Any unencumbered appropriations lapse at year end.

Cash Management

Temporary idle cash is pooled and invested in demand deposits, savings deposits and the State of Wisconsin Local Government Investment Pool. Longer term cash reserves are invested by an investment manager in commercial paper, U.S. Treasury notes, Government Agency instruments, corporate notes and U.S. Treasury money market funds. Interest income from these programs are allocated to the various funds based on their respective balances of the pooled investments.

Risk Management

The City is exposed to a wide variety of risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care for its employees. Third-party insurance is maintained for workers' compensation, property, liability and many other potential losses. The City offers full time and some part time employees a group health and dental plan, which is self-insured by the City. The risk of this plan is reduced through the purchase of an excess loss health insurance policy with a 2006 deductible of \$50,000 per covered participant.

Pension and Other Post employment benefits

The City provides pension benefits to its employees. The public works, sewer and water and maintenance employees are covered by a single employer defined benefit pension plan. The Police and Fire employees are covered by the Wisconsin Retirement System pension program. The remainder of eligible employees are covered by a defined contribution pension plan. In addition to pensions, the City also provides postretirement health and dental care benefits for certain retirees and their dependants. As of the end of the current fiscal year there were 17 retired employees receiving some type of postretirement benefits. The benefits are financed on a pay-as-you-go basis. GAAP does not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. In 2004, the Government Accounting Standards Board (GASB) adopted Statement No. 45, Accounting for post employment benefits. The effective date for the implementation of GASB No. 45 for the City is January 1, 2008. This new standard will require the City to account for post retirement health costs over the working lives of the employees.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the fourteenth consecutive year that the City has received this award.

In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements. We will be submitting the CAFR to the GFOA to determine its eligibility for a 2006 Certificate.

Acknowledgments

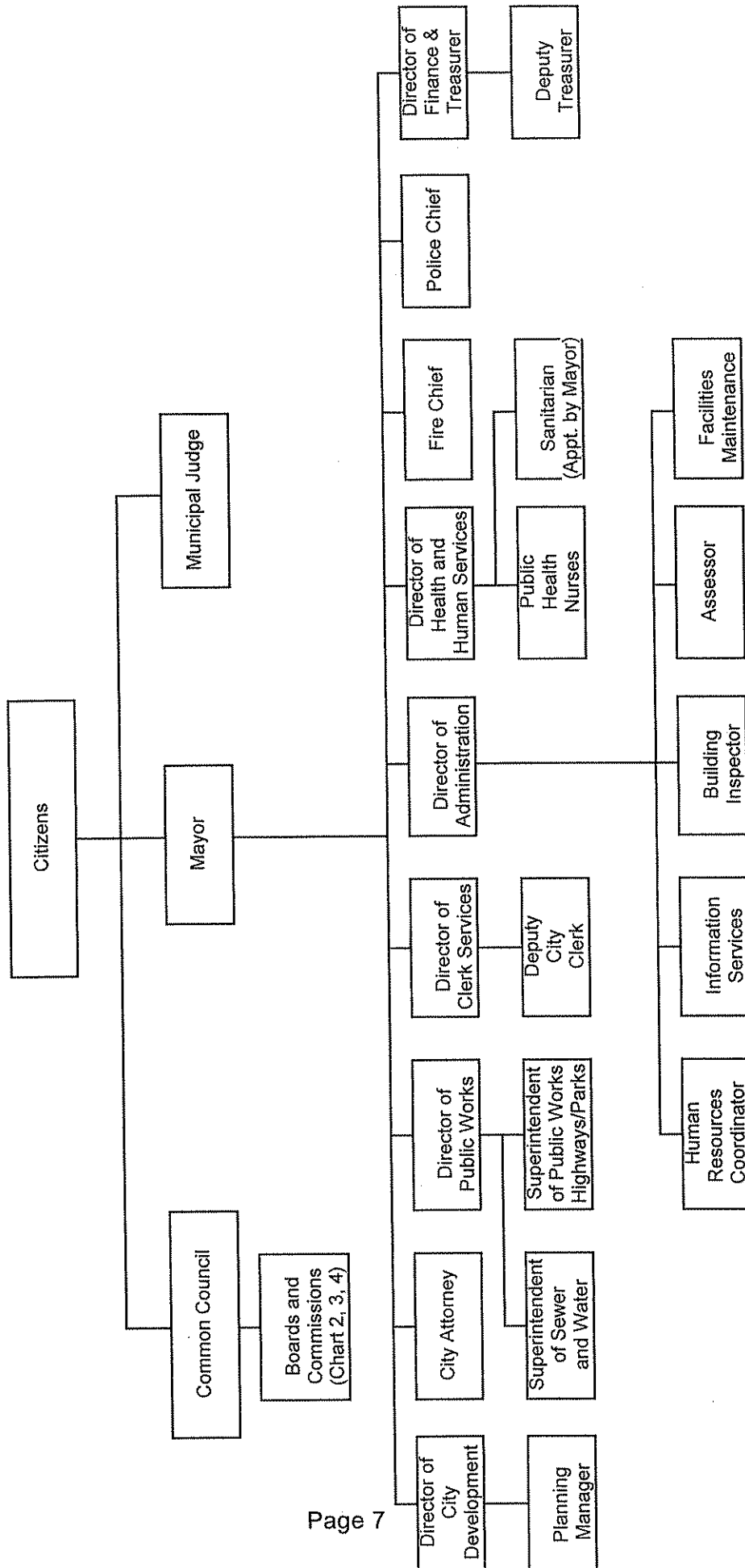
Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the Finance Department staff. Appreciation is also extended to all other City employees who contributed to its preparation. We also thank the Mayor, Common Council, and Finance Committee for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

A handwritten signature in cursive script, reading "Calvin A. Patterson".

Calvin A. Patterson
Director of Finance & Treasurer

City of Franklin
Organization Chart
Chart 1



**CITY OF FRANKLIN
LIST OF PRINCIPAL OFFICIALS**

Elected Officials

<u>Title</u>	<u>Name</u>
Mayor	Tom Taylor
Aldermen:	
District No. 1	Steve Olson
District No. 2	Tim Solomon
District No. 3	Al Hammelman
District No. 4	Pete Kosovich
District No. 5	Lyle Sohns
District No. 6	Ken Skowronski
Municipal Judge	Fred Klimetz

Non-elected Officials

Assessor	Marty Kuehn
Building Inspector	Fred Baumgart
City Attorney	Jesse Wesolowski
City Clerk	Sandi Wesolowski
City Engineer/Public Works Director	John Bennett
City Development Director	Doug Wheaton
Director of Administration	Mark Luberta
Director of Finance & Treasurer	Cal Patterson
Director of Health & Human Services	Bill Wucherer
Fire Chief	Jim Martins
Human Resources Coordinator	Dana Zahn
Library Director	Barbara Roark
Planning Manager	Joel Dietl
Police Chief	Rick Oliva

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Franklin
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director